It’s not too late to slash your tax bill

Gina M. Barry, Esq.

The holiday season has begun. As you sit down for your holiday dinner, remember that soon Uncle Sam will be visiting you to enjoy his share of your bounty. Despite the hustle and bustle of the holidays, the savvy taxpayer will make room in their overstuffed holiday calendar to complete year end tax planning. Of course, it would be best to take steps to minimize taxes all year. Fortunately, if you have failed to do so, there are still some options that can be utilized before year end. Here are five:

Sell the losers

If your taxable income needs to be offset, you should consider selling assets that have lost value before the end of the year. Losses will offset gains, and to the extent that the losses are greater than the gains, you may be able to write off the losses against your income this year and in future years. If you are holding an asset that in all likelihood will not go up in value, consider a sale at a loss, which may, in turn, reduce taxable income.

Give to charity

Often, taxpayers make additional charitable contributions in order to obtain additional deductions against their income. An additional deduction is only available if you qualify to itemize deductions. In order to itemize your deductions, you must have deductions that exceed the standard deduction for the tax year. If you are unsure whether your itemized deductions will exceed the standard deduction, it makes sense to calculate your deductions prior to making any additional contributions to ensure that the contributions will have the desired effect on your income tax return.

If additional charitable contributions would reduce your income tax, it is not necessary to make a cash donation. For example, you can donate land or highly appreciated assets. If you donate highly appreciated assets to charity, the charity can avoid paying capital gains tax on the appreciation due to its charitable status. This is beneficial for you and the charity. You can also donate tangible items of personal property – automobiles, clothing, household furnishings and the like. Your attic and basement could be filled with tax deductions.

Borrow or refinance

If you are in need of additional funds, perhaps to pay for all of those holiday gifts and festivities, borrowing additional funds can reduce your income taxes. If you are currently considering borrowing additional funds or refinancing your mortgage and you will be paying points, you should consider whether you should close on December 31st or January 2nd in order to determine the most beneficial year for taking the itemized deduction of these points.

Liquidate capital gains assets

Another option to consider if you require additional cash is to liquidate assets that are subject to capital gains tax as opposed to ordinary income tax. Paying on only the gain may be preferable to liquidating other assets that will be more heavily taxed. For example, if you are in a 28% bracket, additional withdrawals from your IRA or 401k plan will cause these amounts to be taxable at the 28% rate, if not higher. The sale of a capital gain asset (not held in a qualified plan) will trigger a smaller capital gain tax on only the gain, which is the amount over the basis.

Use gifting wisely

Should you have a taxable estate, which, for 2017, means an estate greater than $1 million for Massachusetts purposes and/or greater than $5.49 million for federal purposes, gifting should also be considered. Massachusetts has no gift tax. For federal purposes, in 2017, you may gift $14,000 to any person without having to file a federal gift tax return. Systematic gifting each year in amounts that do not exceed the annual exclusion can substantially reduce your taxable estate leaving more for your loved ones after your passing. In addition, gifting may reduce your income taxes as you would no longer own the assets that would generate income.

As you discuss these issues over the holiday dinner table,

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remember that the best year end plan for you may be very different from the plan for your family member or neighbor. As with all tax issues, competent assistance should be obtained from a tax professional who has the knowledge and the technical expertise to recognize areas where planning may be available to you. The time to plan is now, as once Uncle Sam sits down at the dinner table, there is no controlling his appetite.

Gina M. Barry is a Partner with the law firm of Bacon Wilson, P.C., Attorneys at Law. She is a member of the National Association of Elder Law Attorneys, the Estate Planning Council, and the Western Massachusetts Elder Care Professionals Association. She concentrates her practice in the areas of Estate and Asset Protection Planning, Probate Administration and Litigation, Guardianships, Conservatorships and Residential Real Estate. Gina may be reached at (413) 781-0560 or gbarry@baconwilson.com.